CHAPTER 13

CORPORATIONS: ORGANIZATION AND CAPITAL STOCK TRANSACTIONS

SUMMARY OF QUESTIONS BY STUDY OBJECTIVES AND BLOOM'S TAXONOMY

Item	SO	BT	Item	SO	BT	Item	SO	BT	Item	SO	BT	Item	SO	BT
True-False Statements														
1.	1	K	9.	1	K	17.	2	K	25.	4	C	sg33.	3	C
2.	1	K	10.	1	K	18.	2	K	26.	5	K	sg34.	3	C
3.	1	K	11.	1	K	19.	3	K	27.	5	K	sg35.	4	K
4.	1	K	12.	1	K	20.	3	K	28.	5	K	sg36.	7	K
5.	1	K	13.	2	K	21.	4	C	29.	6	K			
6.	1	K	14.	2	K	22.	4	K	30.	7	C			
7.	1	K	15.	2	K	23.	4	C	sg31.	1	K			
8.	1	C	16.	2	K	24.	4	K	sg32.	1	K			
Multiple Choice Questions														
37.	1	K	59.	1	K	81.	3	AP	103.	4	K	125.	6	K
38.	1	K	60.	1	K	82.	3	C	104.	4	AP	126.	6	K
39.	1	K	61.	1	K	83.	3	K	105.	4	AP	127.	6	K
40.	1	K	62.	1	K	84.	3	C	106.	5	C	128.	7	C
41.	1	K	63.	1	K	85.	3	K	107.	5	K	129.	7	K
42.	1	C	64.	1	C	86.	3	K	108.	5	AP	130.	7	K
43.	1	K	65.	1	C	87.	3	K	109.	5	C	131.	7	C
44.	1	K	66.	1	K	88.	3	K	110.	5	K	132.	7	AP
45.	1	K	67.	1	C	89.	4	K	111.	5	K	sg133.	1	C
46.	1	K	68.	1	K	90.	4	C	112.	5	K	st134.	1	K
47.	1	K	69.	2	K	91.	4	C	113.	5	AP	sg135.	1	C
48.	1	K	70.	2	C	92.	4	AP	114.	5	AP	sg136.	3	C
49.	1	C	71.	2	K	93.	4	AP	115.	6	AP	st137.	4	K
50.	1	K	72.	2	C	94.	4	AP	116.	6	AP	sg138.	4	AP
51.	1	K	73.	3	C	95.	4	AP	117.	6	AP	sg139.	4	K
52.	1	K	74.	3	AP	96.	4	K	118.	6	AP	st140.	5	K
53.	1	K	75.	3	K	97.	4	K	119.	6	AP	sg141.	5	AP
54.	1	K	76.	3	K	98.	4	C	120.	6	AP	st142.	6	K
55.	1	K	77.	3	K	99.	4	K	121.	6	AP	sg143.	6	K
56.	1	K	78.	3	K	100.	4	C	122.	6	K	sg144.	7	AP
57.	1	K	79.	3	K	101.	4	K	123.	6	K			
58.	1	K	80.	3	K	102.	4	C	124.	6	K			
Brief Exercises														
145.	1	K	147.	3,4	AP	149.	4	AP	151.	5	AP			
146.	3	AP	148.	3,4	AP	150.	3,5	AP	152.	7	AP			

sg This question also appears in the Study Guide.
st This question also appears in a self-test at the student companion website.

SUMMARY OF QUESTIONS BY STUDY OBJECTIVES AND BLOOM'S TAXONOMY

Exercises														
153.	3	AP	158.	3,4	AP	163.	4	AP	168.	5	AP	173.	7	AP
154.	3	AP	159.	4	AP	164.	4	AP	169.	5	C			
155.	3	AP	160.	4	AP	165.	4–6	AP	170.	6	AP			
156.	3	AP	161.	4	AP	166.	5	AP	171.	6	C			
157.	1,4	C	162.	4	AN	167.	5	AP	172.	7	AP			
Completion Statements														
174.	1	K	177.	1	K	180.	2	K	183.	5	K	186.	7	K
175.	1	K	178.	1	K	181.	3	K	184.	5	K			
176.	1	K	179.	1	K	182.	4	K	185.	6	K			

SUMMARY OF STUDY OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Study Objective 1													
1.	TF	10.	TF	41.	MC	50.	MC	59.	MC	68.	MC	177.	C
2.	TF	11.	TF	42.	MC	51.	MC	60.	MC	133.	MC	178.	C
3.	TF	12.	TF	43.	MC	52.	MC	61.	MC	134.	MC	179.	C
4.	TF	31.	TF	44.	MC	53.	MC	62.	MC	135.	MC		
5.	TF	32.	TF	45.	MC	54.	MC	63.	MC	145.	BE		
6.	TF	37.	MC	46.	MC	55.	MC	64.	MC	157.	Ex		
7.	TF	38.	MC	47.	MC	56.	MC	65.	MC	174.	C		
8.	TF	39.	MC	48.	MC	57.	MC	66.	MC	175.	C		
9.	TF	40.	MC	49.	MC	58.	MC	67.	MC	176.	C		
Study Objective 2													
13.	TF	15.	TF	17.	TF	69.	MC	71.	MC	180.	C		
14.	TF	16.	TF	18.	TF	70.	MC	72.	MC				
Study Objective 3													
19.	TF	74.	MC	79.	MC	84.	MC	136.	MC	153.	Ex	181.	C
20.	TF	75.	MC	80.	MC	85.	MC	146.	BE	154.	Ex		
33.	TF	76.	MC	81.	MC	86.	MC	147.	BE	155.	Ex		
34.	TF	77.	MC	82.	MC	87.	MC	148.	BE	156.	Ex		
73.	MC	78.	MC	83.	MC	88.	MC	150.	BE	158.	Ex		
Study Objective 4													
21.	TF	89.	MC	95.	MC	101.	MC	138.	MC	158.	Ex	164.	Ex
22.	TF	90.	MC	96.	MC	102.	MC	139.	MC	159.	Ex	165.	Ex
23.	TF	91.	MC	97.	MC	103.	MC	147.	BE	160.	Ex	182.	C
24.	TF	92.	MC	98.	MC	104.	MC	148.	BE	161.	Ex		
25.	TF	93.	MC	99.	MC	105.	MC	149.	BE	162.	Ex		
35.	TF	94.	MC	100.	MC	137.	MC	157.	Ex	163.	Ex		
Study Objective 5													
26.	TF	107.	MC	111.	MC	140.	MC	165.	Ex	169.	Ex		
27.	TF	108.	MC	112.	MC	141.	MC	166.	Ex	183.	C		
28.	TF	109.	MC	113.	MC	150.	BE	167.	Ex	184.	C		
106.	MC	110.	MC	114.	MC	151.	BE	168.	Ex				

SUMMARY OF STUDY OBJECTIVES BY QUESTION TYPE

Study Objective 6																	
29.	TF	117.	MC	120.	MC	123.	MC	126.	MC	143.	MC	171.	Ex				
115.	MC	118.	MC	121.	MC	124.	MC	127.	MC	165.	Ex	185.	C				
116.	MC	119.	MC	122.	MC	125.	MC	142.	MC	170.	Ex						
Study Objective 7																	
30.	TF	128.	MC	130.	MC	132.	MC	152.	BE	173.	Ex						
36.	TF	129.	MC	131.	MC	144.	MC	172.	Ex	186.	C						

Note: TF = True-False BE = Brief Exercise C = Completion
MC = Multiple Choice Ex = Exercise

The chapter also contains one set of ten Matching questions and five Short-Answer Essay questions.

CHAPTER STUDY OBJECTIVES

1. ***Identify the major characteristics of a corporation.*** The major characteristics of a corporation are separate legal existence, limited liability of stockholders, transferable ownership rights, ability to acquire capital, continuous life, corporation management, government regulations, and additional taxes.

2. ***Differentiate between paid-in capital and retained earnings.*** Paid-in capital is the total amount paid in on capital stock. It is often called contributed capital. Retained earnings is net income retained in a corporation. It is often called earned capital.

3. ***Record the issuance of common stock.*** When companies record the issuance of common stock for cash, they credit the par value of the shares to Common Stock. They record in a separate paid-in capital account the portion of the proceeds that is above or below par value. When no-par common stock has a stated value, the entries are similar to those for par value stock. When no-par stock does not have a stated value, companies credit the entire proceeds to Common Stock.

4. ***Explain the accounting for treasury stock.*** The cost method is generally used in accounting for treasury stock. Under this approach, companies debit Treasury Stock at the price paid to reacquire the shares. They credit the same amount to Treasury Stock when they sell the shares. The difference between the sales price and cost is recorded in stockholders' equity accounts, not in income statement accounts.

5. ***Differentiate preferred stock from common stock.*** Preferred stock has contractual provisions that give it priority over common stock in certain areas. Typically, preferred stockholders have a preference (1) to dividends and (2) to assets in liquidation. They usually do not have voting rights.

6. ***Prepare a stockholders' equity section.*** In the stockholders' equity section, companies report paid-in capital and retained earnings and identify specific sources of paid-in capital. Within paid-in capital, two classifications are shown: capital stock and additional paid-in capital. If a corporation has treasury stock, it deducts the cost of treasury stock from total paid-in capital and retained earnings to obtain total stockholders' equity.

7. ***Compute book value per share.*** Book value per share represents the equity a common stockholder has in the net assets of a corporation from owning one share of stock. When there is only common stock outstanding, the formula for computing book value is: Total stockholders' equity ÷ Number of common shares outstanding = Book value per share.

TRUE-FALSE STATEMENTS

1. A corporation is not an entity which is separate and distinct from its owners.

2. A corporation can be organized for the purpose of making a profit or it may be nonprofit.

3. A corporation acts under its own name rather than in the name of its stockholders.

4. If a corporation pays taxes on its income, then stockholders will not have to pay taxes on the dividends received from that corporation.

5. A corporation must be incorporated in each state in which it does business.

6. A stockholder has the right to vote in the election of the board of directors.

7. A proxy is a legal document that instructs a stockholder’s agent how to vote shares of stock for the stockholder.

8. As soon as a corporation is authorized to sell stock, an accounting journal entry should be made recording the total value of the shares authorized.

9. The par value of common stock must always be equal to its market value on the date the stock is issued.

10. When no-par value stock does not have a stated value, the entire proceeds from the issuance of the stock becomes legal capital.

11. A corporation can issue more shares than it is authorized in its charter, if the board of directors approves of an increase in the number of authorized shares.

12. The market value of a corporation's stock is determined by the number of shares that the corporation has been authorized to issue.

13. Each stockholder in a corporation has a separate capital account in the stockholders' equity section of the balance sheet.

14. The stockholders' equity section of a corporation's balance sheet consists of (1) paid-in capital, (2) retained earnings, and (3) drawings.

15. Dividends are declared out of retained earnings.

16. When a corporation has only one class of capital stock, it is identified as preferred stock.

17. Retained earnings are a part of stockholders' equity.

18. Retained earnings are subtracted from paid-in capital to arrive at total stockholders' equity.

19. Stock can be issued only in exchange for cash.

20. The par value of stock issued for noncash assets is never a factor in determining the cost of the assets received.

21. The acquisition of treasury stock by a corporation increases total assets and total stockholders' equity.

22. Treasury stock should not be classified as a current asset.

23. Treasury stock purchased for $25 per share that is reissued at $20 per share, results in a Loss on Sale of Treasury Stock being recognized on the income statement.

24. Treasury stock is a contra stockholders' equity account.

25. The number of common shares outstanding can never be greater than the number of shares issued.

26. Preferred stock has contractual preference over common stock in certain areas.

27. Preferred stockholders generally do not have the right to vote for the board of directors.

28. Dividends in arrears on cumulative preferred stock are considered a liability.

29. In published annual reports, subclassifications within the stockholders' equity section are seldom presented, but additional information is frequently included in the footnotes to the financial statements.

30. Book value per share of common stock is the same amount as the market value per share.

Additional True-False Questions

31. A successful corporation can have a continuous and perpetual life.

32. Organizational costs are capitalized by debiting an intangible asset entitled Organization Costs.

33. The cash proceeds from issuing par value stock may be equal to or greater than, but not less than par value.

34. The cost of a noncash asset acquired in exchange for common stock should be either the fair market value of the consideration given up or the consideration received, whichever is more clearly determinable.

35. Under the cost method, Treasury Stock is debited at the price paid to reacquire the shares, and the same amount is credited to Treasury Stock when the shares are sold.

36. Book value per share is the same thing as liquidation value per share.

Answers to True-False Statements

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	F	7.	T	13.	F	19.	F	25.	T	31.	T
2.	T	8.	F	14.	F	20.	T	26.	T	32.	F
3.	T	9.	F	15.	T	21.	F	27.	T	33.	F
4.	F	10.	T	16.	F	22.	T	28.	F	34.	T
5.	F	11.	F	17.	T	23.	F	29.	T	35.	T
6.	T	12.	F	18.	F	24.	T	30.	F	36.	F

MULTIPLE CHOICE QUESTIONS

37. Which one of the following is a privately held corporation?
    a. Intel
    b. General Electric
    c. Caterpillar Inc.
    d. Cargill Inc.

38. The dominant form of business organization in the United States in terms of dollar sales volume, earnings, and employees is
    a. the sole proprietorship.
    b. the partnership.
    c. the corporation.
    d. not known.

39. Under the corporate form of business organization
    a. a stockholder is personally liable for the debts of the corporation.
    b. stockholders' acts can bind the corporation even though the stockholders have not been appointed as agents of the corporation.
    c. the corporation's life is stipulated in its charter.
    d. stockholders wishing to sell their corporation shares must get the approval of other stockholders.

40. Stockholders of a corporation directly elect
    a. the president of the corporation.
    b. the board of directors.
    c. the treasurer of the corporation.
    d. all of the employees of the corporation.

41. The chief accounting officer in a company is known as the
    a. controller.
    b. treasurer.
    c. vice-president.
    d. president.

42. A factor which distinguishes the corporate form of organization from a sole proprietorship or partnership is that a
    a. corporation is organized for the purpose of making a profit.
    b. corporation is subject to numerous federal and state government regulations.
    c. corporation is an accounting economic entity.
    d. corporation’s temporary accounts are closed at the end of the accounting period.

43. Which one of the following would *not* be considered an advantage of the corporate form of organization?
    a. Limited liability of owners
    b. Separate legal existence
    c. Continuous life
    d. Government regulation

44. The concept of an "artificial being" refers to which form of business organization?
    a. Partnership
    b. Sole proprietorship
    c. Corporation
    d. Limited partnership

45. The two ways that a corporation can be classified by purpose are
    a. general and limited.
    b. profit and nonprofit.
    c. state and federal.
    d. publicly held and privately held.

46. The two ways that a corporation can be classified by ownership are
    a. publicly held and privately held.
    b. stock and non-stock.
    c. inside and outside.
    d. majority and minority.

47. Which of the following would *not* be true of a privately held corporation?
    a. It is sometimes called a closely held corporation.
    b. Its shares are regularly traded on the New York Stock Exchange.
    c. It does not offer its shares for sale to the general public.
    d. It is usually smaller than a publicly held company.

48. Which of the following is *not* true of a corporation?
    a. It may buy, own, and sell property.
    b. It may sue and be sued.
    c. The acts of its owners bind the corporation.
    d. It may enter into binding legal contracts in its own name.

49. Ed Stone has invested $400,000 in a privately held family corporation. The corporation does not do well and must declare bankruptcy. What amount does Stone stand to lose?
    a. Up to his total investment of $400,000.
    b. Zero.
    c. The $400,000 plus any personal assets the creditors demand.
    d. $200,000.

50. Which of the following statements reflects the transferability of ownership rights in a corporation?
    a. If a shareholder decides to transfer ownership, he must transfer all of his shares.
    b. A shareholder may dispose of part or all of his shares.
    c. A shareholder must obtain permission from the board of directors before selling shares.
    d. A shareholder must obtain permission from at least three other stockholders before selling shares.

51. A corporate board of directors does *not* generally
    a. select officers.
    b. formulate operating policies.
    c. declare dividends.
    d. execute policy.

52. A typical organization chart showing delegation of authority would show
    a. stockholders delegating to the board of directors.
    b. the board of directors delegating to stockholders.
    c. the chief executive officer delegating to the board of directors.
    d. the controller delegating to the chief executive officer.

53. The officer who is generally responsible for maintaining the cash position of the corporation is the
    a. controller.
    b. treasurer.
    c. cashier.
    d. internal auditor.

54. The chief accounting officer in a corporation is the
    a. treasurer.
    b. president.
    c. controller.
    d. vice-president of finance.

55. The ability of a corporation to obtain capital is
    a. enhanced because of limited liability and ease of share transferability.
    b. less than a partnership.
    c. restricted because of the limited life of the corporation.
    d. about the same as a partnership.

56. Which of the following statements concerning taxation is accurate?
    a. Partnerships pay state income taxes but not federal income taxes.
    b. Corporations pay federal income taxes but not state income taxes.
    c. Corporations pay federal and state income taxes.
    d. Only the owners must pay taxes on corporate income.

57. Which of the following statements is *not* considered a disadvantage of the corporate form of organization?
    a. Additional taxes
    b. Government regulations
    c. Limited liability of stockholders
    d. Separation of ownership and management

58. What is ordinarily the first step in the formation of a corporation?
    a. Development of by-laws for the corporation
    b. Issuance of the corporate charter
    c. Application for incorporation to the appropriate Secretary of State
    d. Registration with the SEC

59. Which one of the following is *not* an ownership right of a stockholder in a corporation?
    a. To vote in the election of directors
    b. To declare dividends on the common stock
    c. To share in assets upon liquidation
    d. To share in corporate earnings

60. If no-par stock is issued without a stated value, then
    a. the par value is automatically $1 per share.
    b. the entire proceeds are considered to be legal capital.
    c. there is no legal capital.
    d. the corporation is automatically in violation of its state charter.

61. If a stockholder cannot attend a stockholder's meeting, he may delegate his voting rights by means of
    a. an absentee ballot.
    b. a proxy.
    c. a certified letter.
    d. a telegram.

62. If a corporation has only one class of stock, it is referred to as
    a. Classless Stock.
    b. Preferred Stock.
    c. Solitary Stock.
    d. Common Stock.

63. The term *residual claim* refers to a shareholder's right to
    a. receive dividends.
    b. share in assets upon liquidation.
    c. acquire additional shares when offered.
    d. exercise a proxy vote.

64. Which of the following factors does *not* affect the initial market price of a stock?
    a. The company's anticipated future earnings
    b. The par value of the stock
    c. The current state of the economy
    d. The expected dividend rate per share

65. If an investment firm underwrites a stock issue, the
    a. risk of being unable to sell the shares stays with the issuing corporation.
    b. corporation obtains cash immediately from the investment firm.
    c. investment firm has guaranteed profits on the sale of the stock.
    d. issuance of stock is likely to be directly to creditors.

66. The par value of a stock
    a. is legally significant.
    b. reflects the most recent market price.
    c. is selected by the SEC.
    d. is indicative of the worth of the stock.

67. A corporation has the following account balances: Common stock, $1 par value, $30,000; Paid-in Capital in Excess of Par Value, $1,350,000. Based on this information, the
    a. legal capital is $1,380,000.
    b. number of shares issued are 30,000.
    c. number of shares outstanding are 1,380,000.
    d. average price per share issued is $4.60.

68. The authorized stock of a corporation
    a. only reflects the initial capital needs of the company.
    b. is indicated in its by-laws.
    c. is indicated in its charter.
    d. must be recorded in a formal accounting entry.

69. Owners' equity for a corporation is identified as each of the following *except*
    a. corporate capital.
    b. paid-in capital.
    c. shareholders' equity.
    d. stockholders' equity.

70. Retained earnings
    a. is unique to the corporate form of business.
    b. is an optional account in the partnership form of business.
    c. reflects cash paid in by shareholders to date.
    d. is closed at the end of the year.

71. Dividends are declared out of
    a. Capital Stock.
    b. Paid-in Capital in Excess of Par Value.
    c. Retained Earnings.
    d. Treasury Stock.

72. Retained earnings is
    a. always equal to the amount of cash that the corporation has generated from operations.
    b. a part of the paid-in capital of the corporation.
    c. a part of the stockholders' claim on the total assets of the corporation.
    d. closed at the end of each accounting period.

73. When stock is issued for legal services, the transaction is recorded by debiting Organization Expense for the
    a. stated value of the stock.
    b. par value of the stock.
    c. market value of the stock.
    d. book value of the stock.

74. If Vickers Company issues 2,000 shares of $5 par value common stock for $140,000,
    a. Common Stock will be credited for $140,000.
    b. Paid-In Capital in Excess of Par Value will be credited for $10,000.
    c. Paid-In Capital in Excess of Par Value will be credited for $130,000.
    d. Cash will be debited for $130,000.

75. If common stock is issued for an amount greater than par value, the excess should be credited to
    a. Cash.
    b. Retained Earnings.
    c. Paid-in Capital in Excess of Par Value.
    d. Legal Capital.

76. If stock is issued for a noncash asset, the asset should be recorded on the books of the corporation at
    a. fair market value.
    b. cost.
    c. zero.
    d. a nominal amount.

77. If stock is issued for less than par value, the account
    a. Paid-In Capital in Excess of Par Value is credited.
    b. Paid-In Capital in Excess of Par Value is debited if a debit balance exists in the account.
    c. Paid-In Capital in Excess of Par Value is debited if a credit balance exists in the account.
    d. Retained Earnings is credited.

78. The sale of common stock below par
    a. is a common occurrence in most states.
    b. is not permitted in most states.
    c. is a practice that most shareholders encourage.
    d. requires that a liability be recorded for the difference between the sales price and the par value of the shares.

79. Paid-In Capital in Excess of Stated Value
    a. is credited when no-par stock does not have a stated value.
    b. is reported as part of paid-in capital on the balance sheet.
    c. represents the amount of legal capital.
    d. normally has a debit balance.

80. A separate paid-in capital account is used to record each of the following *except* the issuance of
    a. no-par stock.
    b. par value stock.
    c. stated value stock.
    d. treasury stock above cost.

81. Becker Company is a publicly held corporation whose $1 par value stock is actively traded at $20 per share. The company issued 2,000 shares of stock to acquire land recently advertised at $50,000. When recording this transaction, Becker Company will
    a. debit Land for $50,000.
    b. credit Common Stock for $40,000.
    c. debit Land for $40,000.
    d. credit Paid-In Capital in Excess of Par Value for $48,000.

82. Simon Company issued 6,000 shares of its $5 par value common stock in payment of its attorney's bill of $45,000. The bill was for services performed in helping the company incorporate. Simon should record this transaction by debiting
    a. Legal Expense for $30,000.
    b. Legal Expense for $45,000.
    c. Organization Expense for $30,000.
    d. Organization Expense for $45,000.

83. In the financial statements, organization costs appears
    a. immediately below Retained Earnings in the stockholders' equity section.
    b. in the income statement.
    c. as part of paid-in capital in the stockholders' equity section.
    d. as an intangible asset.

84. Which of the following represents the largest number of common shares?
    a. Treasury shares
    b. Issued shares
    c. Outstanding shares
    d. Authorized shares

85. New Corp. issues 1,000 shares of $10 par value common stock at $14 per share. When the transaction is recorded, credits are made to
    a. Common Stock $10,000 and Paid-in Capital in Excess of Stated Value $4,000.
    b. Common Stock $14,000.
    c. Common Stock $10,000 and Paid-in Capital in Excess of Par Value $4,000.
    d. Common Stock $10,000 and Retained Earnings $4,000.

86. If Kiner Company issues 1,000 shares of $5 par value common stock for $70,000, the account
    a. Common Stock will be credited for $5,000.
    b. Paid-in Capital in Excess of Par Value will be credited for $5,000.
    c. Paid-in Capital in Excess of Par Value will be credited for $70,000.
    d. Cash will be debited for $65,000.

87. Jansen Packaging Corporation began business in 2008 by issuing 40,000 shares of $5 par common stock for $8 per share and 10,000 shares of 6%, $10 par preferred stock for par. At year end, the common stock had a market value of $10. On its December 31, 2008 balance sheet, Jansen Packaging would report
    a. Common Stock of $400,000.
    b. Common Stock of $200,000.
    c. Common Stock of $320,000.
    d. Paid-In Capital of $300,000.

88. Kim, Inc. issued 5,000 shares of stock at a stated value of $10/share. The total issue of stock sold for $15/share. The journal entry to record this transaction would include a
    a. debit to Cash for $50,000.
    b. credit to Common Stock for $50,000.
    c. credit to Paid-in Capital in Excess of Par Value for $25,000.
    d. credit to Common Stock for $75,000.

89. Foley Manufacturing Corporation purchased 3,000 shares of its own previously issued $10 par common stock for $69,000. As a result of this event,
    a. Foley's Common Stock account decreased $30,000.
    b. Foley's total stockholders' equity decreased $69,000.
    c. Foley's Paid-in Capital in Excess of Par Value account decreased $39,000.
    d. All of the above.

90. A corporation purchases 20,000 shares of its own $20 par common stock for $35 per share, recording it at cost. What will be the effect on total stockholders' equity?
    a. Increase by $700,000
    b. Decrease by $400,000
    c. Decrease by $700,000
    d. Increase by $400,000

91. A corporation purchases 10,000 shares of its own $10 par common stock for $25 per share, recording it at cost. What will be the effect on total stockholders' equity?
    a. Increase by $100,000
    b. Decrease by $250,000
    c. Increase by $250,000
    d. Decrease by $100,000

92. Beckham Company has 1,000 shares of 4%, $100 par cumulative preferred stock outstanding at December 31, 2008. No dividends have been paid on this stock for 2007 or 2008. Dividends in arrears at December 31, 2008 total
    a. $0.
    b. $400.
    c. $4,000.
    d. $8,000.

93. Ephram Company has 2,000 shares of 5%, $100 par non-cumulative preferred stock outstanding at December 31, 2008. No dividends have been paid on this stock for 2007 or 2008. Dividends in arrears at December 31, 2008 total
    a. $0.
    b. $1,000.
    c. $10,000.
    d. $20,000.

94. Rebel Inc. issued 2,000 shares of no-par common stock with a stated value of $3 per share. The market price of the stock on the date of issuance was $12 per share. The entry to record this transaction includes a
    a. debit to Cash for $6,000.
    b. credit to Common Stock for $24,000.
    c. credit to Common Stock for $6,000.
    d. debit to Paid-in Capital in Excess of Par Value for $24,000.

95. Rancho Corporation sold 100 shares of treasury stock for $40 per share. The cost for the shares was $30. The entry to record the sale will include a
    a. credit to Gain on Sale of Treasury Stock for $3,000.
    b. credit to Paid-in Capital from Treasury Stock for $1,000.
    c. debit to Paid-in Capital in Excess of Par Value for $1,000.
    d. credit to Treasury Stock for $4,000.

96. Each of the following is correct regarding treasury stock *except* that it has been
    a. issued.
    b. fully paid for.
    c. reacquired.
    d. retired.

97. Treasury stock is
    a. stock issued by the U.S. Treasury Department.
    b. stock purchased by a corporation and held as an investment in its treasury.
    c. corporate stock issued by the treasurer of a company.
    d. a corporation's own stock which has been reacquired but not canceled.

98. The acquisition of treasury stock by a corporation
    a. increases its total assets and total stockholders' equity.
    b. decreases its total assets and total stockholders' equity.
    c. has no effect on total assets and total stockholders' equity.
    d. requires that a gain or loss be recognized on the income statement.

99. Treasury stock should be reported in the financial statements of a corporation as a(n)
    a. investment.
    b. liability.
    c. deduction from total paid-in capital.
    d. deduction from total paid-in capital and retained earnings.

100. A company would *not* acquire treasury stock
    a. in order to reissue shares to officers.
    b. as an asset investment.
    c. in order to increase trading of the company's stock.
    d. to have additional shares available to use in acquisitions of other companies.

101. Accounting for treasury stock is done by the
    a. FIFO method.
    b. LIFO method.
    c. cost method.
    d. lower of cost or market method.

102. Treasury stock is generally accounted for by the
    a. cost method.
    b. market value method.
    c. par value method.
    d. stated value method.

103. Treasury Stock is a(n)
    a. contra asset account.
    b. retained earnings account.
    c. asset account.
    d. contra stockholders’ equity account.

104. Four thousand shares of treasury stock of Meyer, Inc., previously acquired at $12 per share, are sold at $18 per share. The entry to record this transaction will include a
   a. credit to Treasury Stock for $72,000.
   b. debit to Paid-In Capital from Treasury Stock for $24,000.
   c. debit to Treasury Stock for $48,000.
   d. credit to Paid-In Capital from Treasury Stock for $24,000.

105. Reeves Company originally issued 2,000 shares of $10 par value common stock for $60,000 ($30 per share). Reeves subsequently purchases 200 shares of treasury stock for $27 per share and resells the 200 shares of treasury stock for $29 per share. In the entry to record the sale of the treasury stock, there will be a
   a. credit to Common Stock for $5,400.
   b. credit to Treasury Stock for $2,000.
   c. debit to Paid-In Capital in Excess of Par Value of $6,000.
   d. credit to Paid-In Capital from Treasury Stock for $400.

106. When preferred stock is cumulative, preferred dividends *not* declared in a period are
   a. considered a liability.
   b. called dividends in arrears.
   c. distributions of earnings.
   d. never paid.

107. Which of the following is *not* a right or preference associated with preferred stock?
   a. The right to vote
   b. First claim to dividends
   c. Preference to corporate assets in case of liquidation
   d. To receive dividends in arrears before common stockholders receive dividends

Use the following information for questions 108 and 109.

Cole Corporation issues 15,000 shares of $50 par value preferred stock for cash at $60 per share.

108. The entry to record the transaction will consist of a debit to Cash for $900,000 and a credit or credits to
   a. Preferred Stock for $900,000.
   b. Preferred Stock for $750,000 and Paid-in Capital in Excess of Par Value—Preferred Stock for $150,000.
   c. Preferred Stock for $750,000 and Paid-in Capital from Preferred Stock for $150,000.
   d. Paid-in Capital from Preferred Stock for $900,000.

109. In the stockholders' equity section, the effects of the transaction above will be reported
   a. entirely within the capital stock section.
   b. entirely within the additional paid-in capital section.
   c. under both the capital stock and additional paid-in capital sections.
   d. entirely under the retained earnings section.

110. Dividends in arrears on cumulative preferred stock
   a. never have to be paid.
   b. must be paid before common stockholders can receive a dividend.
   c. should be recorded as a current liability until they are paid.
   d. enable the preferred stockholders to share equally in corporate earnings with the common stockholders.

111. Dividends in arrears on cumulative preferred stock
   a. are considered to be a non-current liability.
   b. are considered to be a current liability.
   c. only occur when preferred dividends have been declared.
   d. should be disclosed in the notes to the financial statements.

112. If preferred stock is cumulative, the
   a. preferred dividends not declared in a given year are called dividends in arrears.
   b. preferred shareholders and the common shareholders receive equal dividends.
   c. preferred shareholders and the common shareholders receive the same total dollar amount of dividends.
   d. common shareholders will share in the preferred dividends.

113. The Nice Corporation issues 10,000 shares of $100 par value preferred stock for cash at $110 per share. The entry to record the transaction will consist of a debit to Cash for $1,100,000 and a credit or credits to
   a. Preferred Stock for $1,100,000.
   b. Paid-in Capital from Preferred Stock for $1,100,000.
   c. Preferred Stock for $1,000,000 and Retained Earnings for $100,000.
   d. Preferred Stock for $1,000,000 and Paid-in Capital in Excess of Par Value—Preferred Stock for $100,000.

Use the following information for questions 114–116.

Triad Corporation's December 31, 2008 balance sheet showed the following:

8% preferred stock, $20 par value, cumulative, 10,000 shares authorized; 5,000 shares issued	$ 100,000
Common stock, $10 par value, 1,000,000 shares authorized; 650,000 shares issued, 640,000 shares outstanding	6,500,000
Paid-in capital in excess of par value—preferred stock	20,000
Paid-in capital in excess of par value—common stock	9,000,000
Retained earnings	2,500,000
Treasury stock (10,000 shares)	210,000

114. Triad declared and paid a $25,000 cash dividend on December 15, 2008. If the company's dividends in arrears prior to that date were $6,000, Triad's common stockholders received
   a. $19,000.
   b. $9,000.
   c. $11,000.
   d. no dividend.

115. Triad's total paid-in capital was
   a. $15,620,000.
   b. $15,830,000.
   c. $15,410,000.
   d. $9,020,000.

116. Triad's total stockholders' equity was
   a. $18,380,000.
   b. $15,620,000.
   c. $18,170,000.
   d. $17,910,000.

117. Burgess Corporation began business by issuing 100,000 shares of $5 par value common stock for $24 per share. During its first year, the corporation sustained a net loss of $20,000. The year-end balance sheet would show
    a. Common stock of $500,000.
    b. Common stock of $2,400,000.
    c. Total paid-in capital of $2,380,000.
    d. Total paid-in capital of $1,900,000.

Use the following information for questions 118–119.

Starr Corporation's December 31, 2008 Balance Sheet showed the following:

8% preferred stock, $20 par value, cumulative, 20,000 shares authorized; 10,000 shares issued	$ 200,000
Common stock, $10 par value, 2,000,000 shares authorized; 1,300,000 shares issued, 1,280,000 shares outstanding	13,000,000
Paid-in capital in excess of par value – preferred stock	40,000
Paid-in capital in excess of par value – common stock	18,000,000
Retained earnings	5,100,000
Treasury stock (10,000 shares)	420,000

118. Starr's total paid-in capital was
    a. $31,240,000.
    b. $31,660,000.
    c. $30,820,000.
    d. $18,040,000.

119. Starr's total stockholders' equity was
    a. $36,760,000.
    b. $31,240,000.
    c. $36,340,000.
    d. $35,920,000.

120. Adcock Corporation began business by issuing 150,000 shares of $5 par value common stock for $24 per share. During its first year, the corporation sustained a net loss of $30,000. The year-end balance sheet would show
    a. Common stock of $750,000.
    b. Common stock of $3,600,000.
    c. Total paid-in capital of $3,570,000.
    d. Total paid-in capital of $2,850,000.

121. The trial balance of Hackman Inc. includes the following balances: Common Stock, $39,000; Paid-in Capital in Excess of Par, $96,000; Treasury Stock, $9,000; Preferred Stock, $30,000. Capital stock totals
    a. $69,000.
    b. $126,000.
    c. $165,000.
    d. $174,000.

122. Each of the following is reported for common stock *except* the
   a. par value.
   b. shares issued.
   c. shares outstanding.
   d. liquidation value.

123. Paid-in capital from treasury stock would appear on a balance sheet under the category
   a. capital stock.
   b. treasury stock.
   c. additional paid-in capital.
   d. contra to owners' equity.

124. Two classifications appearing in the paid-in capital section of the balance sheet are
   a. preferred stock and common stock.
   b. paid-in capital and retained earnings.
   c. capital stock and additional paid-in capital.
   d. capital stock and treasury stock.

125. Information that is *not* generally reported for each class of stock on the balance sheet is
   a. the market value.
   b. the par value.
   c. shares authorized.
   d. shares issued.

126. In published annual reports
   a. subclassifications within the stockholders' equity section are routinely reported in detail.
   b. capital surplus is used in place of retained earnings.
   c. the individual sources of additional paid-in capital are often combined.
   d. retained earnings is often not shown separately.

127. Additional paid-in capital includes all of the following *except*
   a. paid-in capital from treasury stock.
   b. paid-in capital in excess of par.
   c. paid-in capital in excess of stated value.
   d. paid-in capital in excess of book value.

128. Book value per share is computed by dividing total
   a. paid-in capital by the number of common shares outstanding.
   b. paid-in capital by the number of common shares issued.
   c. stockholders' equity by the number of common shares outstanding.
   d. stockholders' equity by the number of common shares issued.

129. Book value per share is usually
   a. equal to the market value per share.
   b. less than the market value per share.
   c. greater than the market value per share.
   d. equal to the par value per share.

130. Book value per share is
   a. the equity a common stockholder has in the net assets of the corporation from owning one share of stock.
   b. the equity a common stockholder has in the total assets of the corporation from owning one share of stock.
   c. always equal to the market value of the stock.
   d. computed only for preferred stockholders.

131. The book value per share
   a. is usually a close approximation of the market price per share.
   b. is the same as the par value per share.
   c. may be useful in determining the trend of a stockholder's per share equity in a corporation.
   d. always falls within the annual range of a company's market value per share.

132. Barr, Inc. reports $3,000,000 of common stock, and $4,500,000 of additional paid-in capital on its balance sheet. The number of common shares issued and outstanding is 500,000 shares. The book value per share is
   a. $15.
   b. $9.
   c. $6.
   d. not determinable.

Additional Multiple Choice Questions

133. Which of the following is an *incorrect* statement about a corporation?
   a. A corporation is an entity separate and distinct from its owners.
   b. Creditors ordinarily have recourse only to corporate assets in satisfaction of their claims.
   c. A corporation may be formed in writing, orally, or implied.
   d. A corporation is subject to numerous state and federal regulations.

134. Capital stock to which the charter has assigned a value per share is called
   a. par value stock.
   b. no-par value stock.
   c. stated value stock.
   d. assigned value stock.

135. Legal capital per share cannot be equal to the
   a. par value per share of par value stock.
   b. total proceeds from the sale of par value stock above par value.
   c. stated value per share of no-par value stock.
   d. total proceeds from the sale of no-par value stock.

136. When common stock is issued for services or non-cash assets, cost should be
   a. only the fair market value of the consideration given up.
   b. only the fair market value of the consideration received.
   c. the book value of the common stock issued.
   d. either the fair market value of the consideration given up or the consideration received, whichever is more clearly evident.

137. When the selling price of treasury stock is greater than its cost, the company credits the difference to
   a. Gain on Sale of Treasury Stock.
   b. Paid-in Capital from Treasury Stock.
   c. Paid-in Capital in Excess of Par Value.
   d. Treasury Stock.

138. Roberson Corporation was organized on January 1, 2008, with authorized capital of 750,000 shares of $10 par value common stock. During 2008, Roberson issued 30,000 shares at $12 per share, purchased 3,000 shares of treasury stock at $13 per share, and sold 3,000 shares of treasury stock at $14 per share. What is the amount of additional paid-in capital at December 31, 2008?
   a. $0
   b. $3,000
   c. $60,000
   d. $63,000

139. The purchase of treasury stock
   a. decreases common stock authorized.
   b. decreases common stock issued.
   c. decreases common stock outstanding.
   d. has no effect on common stock outstanding.

140. Preferred stockholders have a priority over common stockholders as to
   a. dividends only.
   b. assets in the event of liquidation only.
   c. voting rights.
   d. both dividends and assets in the event of liquidation.

141. On January 2, 2005, Riley Corporation issued 20,000 shares of 6% cumulative preferred stock at $100 par value. On December 31, 2008, Riley Corporation declared and paid its first dividend. What dividends are the preferred stockholders entitled to receive in the current year before any distribution is made to common stockholders?
   a. $0
   b. $120,000
   c. $360,000
   d. $480,000

142. Additional paid-in capital includes all of the following *except* the amounts paid in
   a. over par value.
   b. over stated value.
   c. from treasury stock.
   d. for the par value of common stock.

143. In the stockholders' equity section of the balance sheet, the classification of capital stock consists of
   a. additional paid-in capital and common stock.
   b. common stock and treasury stock.
   c. common stock, preferred stock, and treasury stock.
   d. common stock and preferred stock.

144. At December 31, the stockholders' equity section shows:

Common stock, $5 par value; 1,320,000 shares issued and 1,200,000 shares outstanding	$6,600,000
Additional paid-in capital	1,400,000
Retained earnings	500,000
Treasury stock, (120,000 shares)	(700,000)
Total stockholders' equity	$7,800,000

The book value per share of common stock is
a. $5.91.
b. $6.50.
c. $7.08.
d. $6.44.

Answers to Multiple Choice Questions

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
37.	d	53.	b	69.	b	85.	c	101.	c	117.	a	133.	c
38.	c	54.	c	70.	a	86.	a	102.	a	118.	a	134.	a
39.	c	55.	a	71.	c	87.	b	103.	d	119.	d	135.	b
40.	b	56.	c	72.	c	88.	b	104.	d	120.	a	136.	d
41.	a	57.	c	73.	c	89.	b	105.	d	121.	a	137.	b
42.	b	58.	c	74.	c	90.	c	106.	b	122.	d	138.	d
43.	d	59.	b	75.	c	91.	b	107.	a	123.	c	139.	c
44.	c	60.	b	76.	a	92.	d	108.	b	124.	c	140.	d
45.	b	61.	b	77.	c	93.	a	109.	c	125.	a	141.	d
46.	a	62.	d	78.	b	94.	c	110.	b	126.	c	142.	d
47.	b	63.	b	79.	b	95.	b	111.	d	127.	d	143.	d
48.	c	64.	b	80.	a	96.	d	112.	a	128.	c	144.	b
49.	a	65.	b	81.	c	97.	d	113.	d	129.	b		
50.	b	66.	a	82.	d	98.	b	114.	c	130.	a		
51.	d	67.	b	83.	b	99.	d	115.	a	131.	c		
52.	a	68.	c	84.	d	100.	b	116.	d	132.	a		

BRIEF EXERCISES

BE 145

Identify (by letter) each of the following characteristics as being an advantage, a disadvantage, or not applicable to the corporate form of business organization.

A = Advantage
D = Disadvantage
N = Not Applicable

Characteristics

_____ 1. Separate legal entity

_____ 2. Taxable entity resulting in additional taxes

_____ 3. Continuous life

_____ 4. Unlimited liability of owners

_____ 5. Government regulation

_____ 6. Separation of ownership and management

_____ 7. Ability to acquire capital

_____ 8. Ease of transfer of ownership

Solution 145 (4 min.)

1. A
2. D
3. A
4. N
5. D
6. A and D
7. A
8. A

BE 146

On July 6, XOT Corporation issued 2,300 shares of its $1.50 par common stock. The market price of the stock on that date was $17 per share. Journalize the issuance of the stock.

Solution 146 (3 min.)

July 6	Cash (2,300 × $17)	39,100	
	Common Stock		3,450
	Paid in Capital in Excess of Par		35,650

BE 147

Bennett Corporation is authorized to issue 1,000,000 shares of $1 par value common stock. During 2008, the company has the following stock transactions.

Jan. 15 Issued 500,000 shares of stock at $7 per share.

Sept. 5 Purchased 20,000 shares of common stock for the treasury at $8 per share.

Instructions
Journalize the transactions for Bennett Corporation.

Solution 147 (5 min.)

Jan. 15	Cash		3,500,000	
	Common Stock			500,000
	Paid-in Capital in Excess of Par Value			3,000,000
Sept. 5	Treasury Stock		160,000	
	Cash			160,000

BE 148

An inexperienced accountant for Duran Corporation made the following entries.

July 1	Cash		170,000	
	Common Stock			170,000
	(Issued 20,000 shares of common stock, par value $6 per share)			
Sept. 1	Common Stock		36,000	
	Retained Earnings		24,000	
	Cash			60,000
	(Purchased 4,000 shares issued on July 1 for the treasury at $15 per share)			

Instructions

On the basis of the explanation for each entry, prepare the entry that should have been made for the transactions.

Solution 148 (5 min.)

July 1	Cash		170,000	
	Common Stock			120,000
	Paid-in Capital in Excess of Par Value			50,000
Sept. 1	Treasury Stock		60,000	
	Cash			60,000

BE 149

On September 5, Bertolli Corporation acquired 2,500 shares of its own $1 par common stock for $23 per share. On October 15, 1,000 shares of the treasury stock is sold for $25 per share.

Instructions
Journalize the purchase and sale of the treasury stock assuming that the company uses the cost method.

Solution 149 (5 min.)

Sept. 5	Treasury Stock (2,500 × $23)	57,500	
	Cash		57,500
Oct. 15	Cash (1,000 × $25)	25,000	
	Treasury Stock (1,000 × $23)		23,000
	Paid-in Capital from Treasury Stock		2,000

BE 150

Warren Company had the following transactions.
1. Issued 6,000 shares of common stock with a stated value of $10 for $110,000.
2. Issued 3,000 shares of $100 par preferred stock at $107 for cash.

Instructions
Prepare the journal entries to record the above stock transactions.

Solution 150 (5 min.)

1.	Cash	110,000	
	Common Stock		60,000
	Paid-in Capital in Excess of Stated Value—Common Stock		50,000
2.	Cash	321,000	
	Preferred Stock		300,000
	Paid-in Capital in Excess of Par Value—Preferred Stock		21,000

BE 151

On February 1, Burchess Corporation issued 4,000 shares of its $20 par value preferred stock for $24 per share.

Instructions
Journalize the transaction.

Solution 151 (3 min.)

Feb.1	Cash		96,000	
	Preferred Stock			80,000
	Paid-in Capital in Excess of Par Value—Preferred Stock			16,000
	(Issued 4,000 shares at $24 per share)			

BE 152

Bellingham Corporation has the following stockholders' equity balances at December 31, 2008:

Common Stock, $1 par	$ 3,500
Paid-in Capital in Excess of Par	24,500
Retained Earnings	62,500
Total	$90,500

Calculate book value per share.

Solution 152 (4 min.)

Number of shares outstanding: $3,500 ÷ $1 = 3,500

Book value per share: $90,500 ÷ 3,500 = $25.86

EXERCISES

Ex. 153

The following selected transactions pertain to Linton Corporation:

Jan. 3 Issued 150,000 shares, $10 par value, common stock for $22 per share.

Feb. 10 Issued 8,000 shares, $10 par value, common stock in exchange for special purpose equipment. Linton Corporation's common stock has been actively traded on the stock exchange at $25 per share.

Instructions
Journalize the transactions.

Solution 153 (8–10 min.)

		January 3		
Cash			3,300,000	
	Common Stock			1,500,000
	Paid-in Capital in Excess of Par Value			1,800,000
	(To record issuance of common stock in excess of par)			

Solution 153 (cont.)

February 10		
Equipment	200,000	
Common Stock		80,000
Paid-in Capital in Excess of Par Value		120,000
(To record issuance of stock for equipment)		

Ex. 154

The corporate charter of Hunter Corporation allows the issuance of a maximum of 2,500,000 shares of $1 par value common stock. During its first three years of operation, Hunter issued 1,500,000 shares at $15 per share. It later acquired 30,000 of these shares as treasury stock for $25 per share.

Instructions
Based on the above information, answer the following questions:
(a) How many shares were authorized?
(b) How many shares were issued?
(c) How many shares are outstanding?
(d) What is the balance of the Common Stock account?
(e) What is the balance of the Treasury Stock account?

Solution 154 (8–11 min.)

(a) 2,500,000 shares are authorized.
(b) 1,500,000 shares were issued.
(c) 1,470,000 shares are outstanding (1,500,000 issued less 30,000 in treasury).
(d) The balance of the Common Stock account is $1,500,000 ($1 × 1,500,000 shares = $1,500,000).
(e) The balance of the Treasury Stock account is $750,000 ($25 × 30,000 shares = $750,000).

Ex. 155

Garner Corporation is authorized to issue 1,000,000 shares of $5 par value common stock. During 2008, its first year of operation, the company has the following stock transactions.

Jan. 1 Paid the state $2,000 for incorporation fees.

Jan. 15 Issued 500,000 shares of stock at $7 per share.

Jan. 30 Attorneys for the company accepted 500 shares of common stock as payment for legal services rendered in helping the company incorporate. The legal services are estimated to have a value of $8,000.

July 2 Issued 100,000 shares of stock for land. The land had an asking price of $900,000. The stock is currently selling on a national exchange at $8 per share.

Sept. 5 Purchased 15,000 shares of common stock for the treasury at $10 per share.

Dec. 6 Sold 11,000 shares of the treasury stock at $11 per share.

Instructions
Journalize the transactions for Garner Corporation.

Solution 155 (12–14 min.)

Jan.	1	Organization Expense	2,000	
		Cash		2,000
Jan.	15	Cash	3,500,000	
		Common Stock		2,500,000
		Paid-In Capital in Excess of Par Value		1,000,000
Jan.	30	Organization Expense	8,000	
		Common Stock		2,500
		Paid-in Capital in Excess of Par Value		5,500
July	2	Land	800,000	
		Common Stock		500,000
		Paid-In Capital in Excess of Par Value		300,000
Sept.	5	Treasury Stock	150,000	
		Cash		150,000
Dec.	6	Cash	121,000	
		Treasury Stock		110,000
		Paid-In Capital from Treasury Stock		11,000

Ex. 156

Prepare the necessary journal entry for each of the following transactions for Starr Corporation.

(a) Issued 2,000 shares of its $5 par value common stock for $16 per share.
(b) Issued 5,000 shares of its stock for land advertised for sale at $80,000. Starr's stock is actively traded at a market price of $15 per share.

Solution 156 (5 min.)

(a)		Cash (2,000 × $16,000)	32,000	
		Common Stock		10,000
		Paid-in Capital in Excess of Par Value		22,000
(b)		Land (5,000 × $15)	75,000	
		Common Stock		25,000
		Paid-in Capital in Excess of Par Value		50,000

Ex. 157

1. Name at least three factors that influence the market value of stock.
2. Corporations acquire treasury stock for a variety of purposes. Name three reasons why treasury stock may be acquired by a corporation.

Solution 157 (9–12 min.)

1. Factors that influence the market value of stock:
   (a) Anticipated future earnings of the company.
   (b) Expected dividend rate per share.
   (c) Current financial position.
   (d) Current state of the economy.
   (e) Current state of the securities market.

2. Reasons why a company may acquire treasury stock:
   (a) To reissue the shares to officers and employees under bonus and stock compensation plans.
   (b) To increase trading of the company's stock in the securities market in the hopes of enhancing its market value.
   (c) To have additional shares available for use in the acquisition of other companies.
   (d) To reduce the number of shares outstanding and, thereby, increase earnings per share.

Ex. 158

The following items were shown on the balance sheet of Herman Corporation on December 31, 2008:

Stockholders' Equity	
Paid-In Capital	
Capital Stock	
Common stock, $5 par value, 360,000 shares authorized; _____ shares issued and _____ outstanding	$1,650,000
Additional paid-in capital	
In excess of par value	165,000
Total paid-in capital	1,815,000
Retained Earnings	750,000
Total paid-in capital and retained earnings	2,565,000
Less: Treasury stock (15,000 shares)	(180,000)
Total stockholders' equity	$2,385,000

Instructions
Complete the following statements and show your computations.

(a) The number of shares of common stock issued was _____.

(b) The number of shares of common stock outstanding was _____.

(c) The sales price of the common stock when issued was $_____.

(d) The cost per share of the treasury stock was $_____.

(e) The average issue price of the common stock was $_____.

(f) Assuming that 25% of the treasury stock is sold at $20 per share, the balance in the Treasury Stock account would be $_____.

Solution 158 (10–15 min.)

(a) The number of shares of common stock issued was 330,000.

$1,650,000 ÷ $5 par value = 330,000 shares issued.

(b) The number of shares of common stock outstanding was 315,000.

330,000 issued less 15,000 in treasury = 315,000 shares outstanding

(c) The sales price of the common stock when issued was $1,815,000.

Common stock	$1,650,000
Plus: In excess of par value	165,000
Total	$1,815,000

(d) The cost per share of the treasury stock was $ 12.

$180,000 ÷ 15,000 = $12 per share.

(e) The average issue price of the common stock was $5.50.

$1,815,000 ÷ 330,000 shares = $5.50 per share.

(f) Assuming 25% of the treasury stock is sold at $20 per share, the balance in the Treasury Stock account would be $135,000.

11,250 shares × $12 = $135,000.

Ex. 159

On May 1, Hite Corporation purchased 1,000 shares of its $10 par value common stock at a cash price of $13/share. On July 15, 600 shares of the treasury stock were sold for cash at $15/share.

Instructions
Journalize the two transactions.

Solution 159 (5–7 min.)

May	1	Treasury Stock	13,000	
		Cash		13,000
Jul.	15	Cash (600 × $15)	9,000	
		Treasury Stock		7,800
		Paid-in Capital from Treasury Stock		1,200

Ex. 160

Werner Corporation has the following stockholders' equity accounts on January 1, 2008:

Common Stock, $10 par value	$1,500,000
Paid-in Capital in Excess of Par	200,000
Retained Earnings	500,000
Total Stockholders' Equity	$2,200,000

The company uses the cost method to account for treasury stock transactions. During 2008, the following treasury stock transactions occurred:

April 1 Purchased 9,000 shares at $16 per share.
August 1 Sold 3,000 shares at $18 per share.
October 1 Sold 3,000 shares at $15 per share.

Instructions

(a) Journalize the treasury stock transactions for 2008.

(b) Prepare the Stockholders' Equity section of the balance sheet for Werner Corporation at December 31, 2008. Assume net income was $110,000 for 2008.

Solution 160 (15–20 min.)

(a)

Apr. 1	Treasury Stock	144,000	
	Cash		144,000
	(To record purchase of treasury stock)		
Aug. 1	Cash	54,000	
	Treasury Stock (3,000 × $16)		48,000
	Paid-in Capital from Treasury Stock (3,000 × $2)		6,000
	(To record sale of treasury stock)		
Oct. 1	Cash	45,000	
	Paid-in Capital from Treasury Stock (3,000 × $1)	3,000	
	Treasury Stock (3,000 × $16)		48,000
	(To record sale of treasury stock)		

(b) Stockholders' equity

Paid-in capital		
Capital Stock		
Common stock, $10 par		$1,500,000
Additional paid-in capital		
In excess of par value	$200,000	
From treasury stock	3,000	203,000
Total paid-in capital		1,703,000
Retained earnings ($500,000 + $110,000)		610,000
Total paid-in capital and retained earnings		2,313,000
Less: Treasury stock (3,000 shares)		(48,000)
Total stockholders' equity		$2,265,000

Ex. 161

Bates Corporation purchased 2,000 shares of its $5 par value common stock for a cash price of $12 per share. Two months later, Bates sold the treasury stock for a cash price of $10 per share.

Instructions

Prepare the journal entry to record the sale of the treasury stock assuming

(a) No balance in Paid-in Capital from Treasury Stock.

(b) A $3,000 balance in Paid-in Capital from Treasury Stock.

Solution 161 (7-9 min.)

(a)	Cash	20,000	
	Retained Earnings [($12 – $10) × 2,000]	4,000	
	Treasury Stock		24,000
(b)	Cash	20,000	
	Paid-in Capital from Treasury Stock	3,000	
	Retained Earnings	1,000	
	Treasury Stock		24,000

Ex. 162

An inexperienced accountant for Moon Corporation made the following entries.

July	1	Cash	210,000	
		Common Stock		210,000
		(Issued 15,000 shares of no-par common stock, stated value $10 per share)		
Sept.	1	Common Stock	28,000	
		Retained Earnings	6,000	
		Cash		34,000
		(Purchased 2,000 shares issued on July 1 for the treasury at $17 per share)		
Dec.	1	Cash	18,000	
		Common Stock		14,000
		Gain on Sale of Stock		4,000
		(Sold 1,000 shares of the treasury stock at $18 per share)		

Instructions

(a) On the basis of the explanation for each entry, prepare the entry that should have been made for the transactions. (Omit explanations.)

(b) Prepare the correcting entries that should be made to correct the accounts of Moon Corporation. (Do not reverse the original entry.)

Solution 162 (15–20 min.)

(a)	July	1	Cash	210,000	
			Common Stock		150,000
			Paid-in Capital in Excess of Stated Value		60,000
	Sept.	1	Treasury Stock	34,000	
			Cash		34,000
	Dec.	1	Cash	18,000	
			Treasury Stock		17,000
			Paid-in Capital from Treasury Stock		1,000
(b)	July	1	Common Stock	60,000	
			Paid-in Capital in Excess of Stated Value		60,000
	Sept.	1	Treasury Stock	34,000	
			Common Stock		28,000
			Retained Earnings		6,000
	Dec.	1	Common Stock	14,000	
			Gain on Sale of Stock	4,000	
			Treasury Stock		17,000
			Paid-in Capital from Treasury Stock		1,000

Ex. 163

On January 1, 2008, Edmond Company issued 30,000 shares of $2 par value common stock for $150,000. On March 1, 2008, the company purchased 4,000 shares of its common stock for $8 per share for the treasury. On June 1, 2008, 1,000 of the treasury shares are sold for $10 per share. On September 1, 2008, 2,000 treasury shares are sold at $6 per share.

Instructions
Journalize the stock transactions of Edmond Company in 2008.

Solution 135 (8–12 min.)

Jan.	1	Cash	150,000	
		Common Stock		60,000
		Paid-In Capital in Excess of Par Value		90,000
March	1	Treasury Stock	32,000	
		Cash		32,000
June	1	Cash	10,000	
		Treasury Stock		8,000
		Paid-In Capital from Treasury Stock		2,000
Sept.	1	Cash	12,000	
		Paid-In Capital from Treasury Stock	2,000	
		Retained Earnings	2,000	
		Treasury Stock		16,000

Ex. 164

Wixen Company originally issued 30,000 shares of $5 par common stock for $180,000 on January 3, 2008. Wixen purchased 1,500 shares of treasury stock for $12,000 on November 2, 2008. On December 6, 2008, 600 shares of the treasury stock are sold for $6,000.

Instructions
Prepare journal entries to record these stock transactions.

Solution 164 (9–13 min.)

Jan.	3	Cash	180,000	
		Common Stock		150,000
		Paid-In Capital in Excess of Par Value		30,000
Nov.	2	Treasury Stock	12,000	
		Cash		12,000
Dec.	6	Cash	6,000	
		Treasury Stock		4,800
		Paid-In Capital from Treasury Stock		1,200

Ex. 165

The stockholders' equity section of Palmer Corporation's balance sheet at December 31, 2007, appears below:

Stockholders' equity	
Paid-in capital	
Common stock, $10 par value, 400,000 shares authorized;	
250,000 issued and outstanding	$2,500,000
Paid-in capital in excess of par	1,200,000
Total paid-in capital	3,700,000
Retained earnings	600,000
Total stockholders' equity	$4,300,000

During 2008, the following stock transactions occurred:

Jan. 18 Issued 50,000 shares of common stock at $30 per share.

Aug. 20 Purchased 25,000 shares of Palmer Corporation's common stock at $24 per share to be held in the treasury.

Nov. 5 Reissued 9,000 shares of treasury stock for $28 per share.

Instructions
(a) Prepare the journal entries to record the above stock transactions.

(b) Prepare the stockholders' equity section of the balance sheet for Palmer Corporation at December 31, 2008. Assume that net income for the year was $100,000 and that no dividends were declared.

Solution 165 (16–22 min.)

(a)	Jan. 18	Cash	1,500,000	
		Common Stock		500,000
		Paid-in Capital in Excess of Par Value		1,000,000
		(To record issuance of 50,000 shares of common stock)		
	Aug. 20	Treasury Stock	600,000	
		Cash		600,000
		(To record purchase of 25,000 shares of treasury stock at cost)		
	Nov. 5	Cash	252,000	
		Treasury Stock		216,000
		Paid-in Capital from Treasury Stock		36,000
		(To record sale of 9,000 shares of treasury stock at $28 per share)		

(b)

Stockholders' equity		
Paid-in capital		
Capital stock		
Common stock, $10 par value, 400,000 shares authorized, 300,000 shares issued, and 284,000 shares outstanding		$3,000,000
Additional paid-in capital		
In excess of par value	$2,200,000	
From treasury stock	36,000	2,236,000
Total paid-in capital		5,236,000
Retained earnings		700,000
Total paid-in capital and retained earnings		5,936,000
Less: Treasury stock (16,000 shares)		(384,000)
Total stockholders' equity		$5,552,000

Ex. 166

Tyler Corporation has 100,000 shares of $40 par value preferred stock authorized. During the year, it had the following transactions related to its preferred stock.

(a) Issued 30,000 shares at $55 per share.

(b) Issued 10,000 shares for equipment having a $700,000 asking price. The stock had a market value of $60 per share

Instructions

Journalize the transactions.

Solution 166 (5–7 min.)

(a)	Cash		1,650,000	
	Preferred Stock			1,200,000
	Paid-in Capital in Excess of Par Value—Preferred			450,000
(b)	Equipment (10,000 × $60)		600,000	
	Preferred Stock			400,000
	Paid-in Capital in Excess of Par Value—Preferred			200,000

Ex. 167

Carson Corporation has the following capital stock outstanding at December 31, 2008:

9% Preferred stock, $100 par value, cumulative 15,000 shares issued and outstanding	$1,500,000
Common stock, no par, $10 stated value, 500,000 shares authorized, 350,000 shares issued and outstanding	3,500,000

The preferred stock was issued at $110 per share. The common stock was issued at an average per share price of $16.

Instructions
Prepare the paid-in capital section of the balance sheet at December 31, 2008.

Solution 167 (10–15 min.)

Stockholders' equity		
Paid-in capital		
Capital stock		
9% Preferred stock, $100 par value, cumulative 15,000 shares issued and outstanding		$1,500,000
Common stock, no par, $10 stated value, 500,000 shares authorized, 350,000 shares issued and outstanding		3,500,000
Total capital stock		5,000,000
Additional paid-in capital		
In excess of par value—preferred stock	$ 150,000*	
In excess of stated value—common stock	2,100,000**	
Total additional paid-in capital		2,250,000
Total paid-in capital		$7,250,000

*15,000 shares × $10 = $150,000.
**350,000 shares × $6 = $2,100,000.

Ex. 168

In its first year of operations, Webber Corporation had the following transactions pertaining to its $30 par value preferred stock.

Feb. 1 Issued 6,000 shares for cash at $41 per share.
Nov. 1 Issued 3,000 shares for cash at $44 per share.

Instructions
(a) Journalize the transactions.

(b) Indicate the amount to be reported for (1) preferred stock, and (2) paid-in capital in excess of par value—preferred stock at the end of the year.

Solution 168 (8–12 min.)

(a)	Feb. 1	Cash	246,000	
		Preferred Stock		180,000
		Paid-in Capital in Excess of Par Value—Preferred Stock		66,000
		(Issued 6,000 shares at $41 per share)		
	Nov. 1	Cash	132,000	
		Preferred Stock		90,000
		Paid-in Capital in Excess of Par Value—Preferred Stock		42,000
		(Issued 3,000 shares at $44 per share)		

(b) (1) Preferred stock: $180,000 + $90,000 = $270,000.

(2) Paid-in Capital in Excess of Par Value—Preferred Stock: $66,000 + $42,000 = $108,000.

Ex. 169

Boswell Corporation has the following stockholders' equity accounts:

Preferred Stock
Paid-in Capital in Excess of Par Value—Preferred Stock
Common Stock
Paid-in Capital in Excess of Stated Value—Common Stock
Paid-in Capital from Treasury Stock—Common
Retained Earnings
Treasury Stock—Common

Instructions
Classify each account using the following tabular alignment.

	Paid-in Capital		Retained	
Account	Capital Stock	Additional	Earnings	Other

Solution 169 (5–9 min.)

	Paid-in Capital		Retained	
Account	Capital Stock	Additional	Earnings	Other
Preferred Stock	X			
Paid-in Capital in Excess of Par Value—Preferred Stock		X		
Common Stock	X			
Paid-in Capital in Excess of Stated Value—Common Stock		X		
Paid-in Capital from Treasury Stock—Common		X		
Retained Earnings			X	
Treasury Stock—Common				X

Ex. 170

The following information is available for Stewart Corporation:

Common Stock ($10 par)	$1,000,000
Paid-in Capital in Excess of Par Value—Preferred	180,000
Paid-in Capital in Excess of Stated Value—Common	600,000
Preferred Stock	550,000
Retained Earnings	750,000
Treasury Stock—Common	50,000

Instructions
Based on the preceding information, calculate each of the following:
(a) Total paid-in capital.
(b) Total stockholders' equity.

Solution 170 (5 min.)

(a) Total paid-in capital = $2,330,000 ($1,000,000 + $180,000 + $600,000 + $550,000)

(b) Total stockholders' equity = $3,030,000 ($2,330,000 + $750,000 – $50,000)

Ex. 171

Place each of the items listed below in the appropriate subdivision of the stockholders' equity section of a balance sheet.

Common stock, $10 stated value
Retained earnings
8% Preferred stock, $100 par value
Paid-in capital in excess of par value
Paid-in capital in excess of stated value
Treasury stock
Paid-in capital from treasury stock

Stockholders' equity
Paid-in capital
Capital stock

Additional paid-in capital

Total additional paid-in capital

Total paid-in capital
Retained earnings

Ex. 171 (cont.)

Total paid-in capital and retained earnings

Total stockholders' equity

Solution 171 (6–9 min.)

Stockholders' equity
Paid-in capital
Capital stock
8% Preferred stock, $100 par value
Common stock, $10 stated value
Additional paid-in capital
In excess of par value—preferred stock
In excess of stated value—common stock
From treasury stock
Total additional paid-in capital
Total paid-in capital
Retained earnings
Total paid-in capital and retained earnings
Less: Treasury stock—common
Total stockholders' equity

Ex. 172

The following information is available for Gordon Corporation:

Common stock ($5 par)	$500,000
Paid-in capital in excess of par—common	200,000
Retained earnings	360,000
Treasury stock	70,000
Common shares issued	100,000 shares
Common shares outstanding	90,000 shares

Instructions
Based on the preceding information, calculate the book value per share.

Solution 172 (4 min.)

Book value per share = $11/sh. [$500,000 + $200,000 + $360,000 – $70,000] ÷ 90,000

Ex. 173

On December 31, 2008, Colaw Company reports the following amounts in its stockholders' equity section:

Common stock	$2,400,000
Paid-in capital in excess of stated value—common	900,000
Retained earnings	1,180,000
Treasury stock—common	180,000

The common stock has a stated value of $10 per share. One million shares of common stock are authorized and 40,000 shares are held in the treasury.

Instructions
Compute the book value per share of common stock.

Solution 173 (4–6 min.)

Total stockholders' equity	$4,300,000
Common shares outstanding (240,000 – 40,000)	200,000
Book value per share	$21.50

COMPLETION STATEMENTS

174. A corporation has a separate _____ apart from its owners.

175. The major advantages of the corporate form of organization include (1) limited _____ of owners, (2) continuous _____ and (3) ease of transferring _____.

176. Stockholders elect the _____, who in turn hire the _____ of the company who have day to day responsibility for running the corporation.

177. If a corporation's stock is traded on the major stock exchanges, the corporation must generally report periodically to a federal agency known as the _____.

178. Stockholders generally have the right to share in corporate _____ and in _____ upon liquidation.

179. Par value of stock represents the _____ per share that must be retained in the business for the protection of corporate _____.

180. The stockholders' equity section of a corporation's balance sheet is generally divided in two major sections: (1) _____ and (2) _____.

181. If stock is issued in exchange for noncash assets, the assets should be valued at the _____ of the consideration _____ or the assets _____, whichever is more clearly evident.

182. A corporation's own stock that has been reacquired by the corporation but not canceled is called _____ and is deducted from total _____ on the balance sheet.

183. The _____ feature of preferred stock gives the preferred stockholders the right to receive current-year dividends and unpaid prior-year dividends before common stockholders receive any dividends.

184. Preferred stock has contractual provisions that give it a preference over common stock as to _____ and to _____ in the event of liquidation.

185. The paid-in capital section of the balance sheet consists of two classifications: _____ and _____.

186. Book value per share represents the equity a common stockholder has in the _____ of the corporation from owning one share of stock.

Answers to Completion Statements

174. legal existence
175. liability, life, ownership rights
176. board of directors, officers
177. Securities and Exchange Commission (SEC)
178. earnings, assets
179. legal capital, creditors
180. Paid-in capital, Retained earnings
181. fair market value, given up, received
182. treasury stock, paid-in capital and retained earnings
183. cumulative
184. dividends, assets
185. capital stock, additional paid-in capital
186. net assets

MATCHING

187. Match the items below by entering the appropriate code letter in the space provided.

A. Limited liability	F. Preemptive right
B. Capital stock	G. Par value
C. Board of directors	H. Legal capital
D. Paid-in capital	I. Treasury stock
E. Retained earnings	J. Cumulative feature

____ 1. Net income retained in the corporation.

____ 2. The amount that must be retained in the business for the protection of creditors.

____ 3. Preferred stockholders have a right to receive current and unpaid prior-year dividends before common stockholders receive any dividends.

____ 4. Creditors only have corporate assets to satisfy their claims.

____ 5. Responsible to stockholders for corporate activity.

____ 6. The amount assigned to each share of stock in the corporate charter.

____ 7. Unit of ownership in a corporation.

____ 8. Enables stockholders to maintain their same percentage ownership when new shares are issued.

____ 9. Corporation's own stock that has been reacquired by the corporation but not retired.

____ 10. Total amount paid-in on capital stock.

Answers to Matching

1. E	6. G
2. H	7. B
3. J	8. F
4. A	9. I
5. C	10. D

SHORT-ANSWER ESSAY QUESTIONS

S-A E 188

Identify at least six characteristics of the corporate form of business organization. Contrast each one with the partnership form of organization.

Solution 188

(a) Separate legal existence
(b) Limited liability of stockholders
(c) Transferable ownership rights
(d) Ability to acquire capital
(e) Continuous life
(f) Corporation management
(g) Government regulations
(h) Additional taxes

A partnership is not a separate legal entity because the act of any partner is binding on all other partners. A partnership has unlimited liability because each partner is personally and individually liable for all partnership liabilities. A partnership requires the approval of all the partners before ownership rights can be transferred. A partnership cannot acquire capital as easily as a corporation can. Investors are fearful of investing in a partnership because they then become liable for all partnership liabilities. The life of a corporation, which may be perpetual, is stated in the charter. The life of a partnership is dependent on the partners and any changes in the composition of the partnership. Corporations allow the owners (stockholders) to indirectly manage the corporation through the board of directors and the corporate officers. On the other hand, partners not only are the owners of their business but they also manage the daily operations. A partnership is not subject to as many regulations as a corporation. Many of these regulations are designed to protect the stockholders of the corporation who are not involved in the daily management of the company. Corporations must pay federal and state income taxes and the stockholders must pay taxes on the dividends received. Partners avoid this double taxation because they only have to pay taxes on the income reported on their personal income tax form.

S-A E 189

Companies frequently issue both preferred stock and common stock. What are the major differences in the rights of stockholders between these two classes of stock?

Solution 189

Common stockholders have the right to vote on corporate actions that require stockholders approval while preferred stockholders generally do not have voting rights. However, preferred stockholders will receive (1) dividends and (2) assets in the event of liquidation prior to common stockholders. Preferred stockholders may also have a cumulative dividend feature or a participating dividend feature. Both of these features increase the amount of dividends paid to the preferred stockholders.

S-A E 190

Define par value, and discuss its significance in accounting.

Solution 190

Par value is an arbitrary amount established for a share of stock and printed on each stock certificate. It represents the legal capital of the corporation and constitutes a minimum cushion that must remain for the protection of the corporate creditors. Par value is also used for the calculation of preferred dividends.

S-A E 191 (Ethics)

Jeff Madden, the president and CEO of Earth Systems, Inc., a waste management firm, was recently hospitalized, suffering from exhaustion and a heart ailment. Immediately prior to his hospitalization, Earth Systems had experienced a sharp decline in its stock price, and trading activity became almost nonexistent. The primary reason for this was concern expressed in the media over a new untested waste management system implemented by the company. Mr. Madden had been unwilling to submit the procedure to testing before implementation, but he reluctantly agreed to limited tests after the system was operational. No problems have been identified by the tests to date.

The other members of management called a meeting to determine what they should do. Rick Farrell, the marketing manager, suggested that the company purchase a large number of shares of treasury stock. In that way, investors might notice that activity had picked up, and might decide to buy some more shares. This plan would use up most of the company's available cash, so that there will be no money available for a cash dividend. Earth Systems has paid cash dividends every quarter for over ten years.

Required:

1. Is Mr. Farrell's suggestion ethical? Explain.
2. Is it ethical to discontinue the cash dividend? Explain.

Solution 191

1. There is no definite answer as to whether Mr. Farrell's suggestion is ethical. There are several points that might be made, supporting either premise. First, it is a large transaction being made in the absence of the CEO, and made entirely to boost stock price. It is not clear what the long-term benefit to the company will be, even if it is successful. Thus, a student might argue that the large purchase of treasury stock, using up most of the available cash, might be unethical because of the potential damage done to the company, without a large enough potential reward. On the other hand, the company might benefit by keeping its stock price high (and supposing that this purchase will enhance the stock price) by being able to issue additional shares of stock to finance future expansion. It is to be hoped that the students can articulate the concept that legality of an action is not the only determinate of whether an action is ethical.

Solution 191 (cont.)

2. A company may discontinue its dividend at will. Common shareholders should know that they are not entitled to a dividend, even when one has been declared and paid every year. There is no expressed or implied contract to pay a dividend to common shareholders, and so the discontinuance of the dividend is ethical. However, the company may lose more in share price by discontinuing a long-standing dividend than it gains by its large purchase of treasury stock.

S-A E 192 (Communication)

As part of a Careers in Accounting program sponsored by accounting organizations and supported by your company, you will be taking a group of high school students through the accounting department in your company. You will also provide them with various materials to explain the work of an accountant. One of the materials you will provide is the Stockholders' Equity section of a recent balance sheet.

Required:
Prepare a sentence or two explaining each major section: Common Stock, Additional Paid-in Capital, and Retained Earnings. You should try to be brief but clear.

Solution 192

Common Stock: When investors invest in our company, they purchase common stock. Part of the purchase price is shown in this section, and is called "par" value. Par value is a legal term, denoting the amount of money that the company must retain in order to satisfy creditors' claims, if the company should become insolvent.

Additional Paid-in Capital: The remainder of the amount paid by investors who purchase shares of stock in our company is shown in this section. Thus, the Common Stock section and the Additional Paid-in Capital section together show the amount paid by investors to purchase shares of our stock.

Retained Earnings: This shows the earnings that have been retained in the firm to finance future growth. The other earnings were paid to our stockholders as dividends.